Public School Permanent Fund, Investment Policy (2010)

The following investment policy adopted in 2010 by the Colorado Department of the Treasury shall remain in place until replaced with a new investment policy to be established and approved by the Public School Fund Investment Board created in 2016 under CRS 22-41-102.5.

Fund Description (State Const., Art. IX §3; CRS 22-41-101/106)

The Public School Fund, d/b/a the Public School Permanent Fund (PSPF), consists of a portion of the proceeds from the sale or use of such lands as have been, or may be, granted to the state by the federal government for educational purposes; all estates that may escheat to the state; and all other grants, gifts or devises that may be made to the state for educational purposes.

Interest earnings of the Fund are credited to the Public School Income Fund and transferred to the state Department of Education. Beginning in the 2010/11 fiscal year and each fiscal year thereafter, any interest earned on the investment of the monies in the Fund shall remain in the Fund and shall become part of the principal of the Fund.

The PSPF is exempt from the Taxpayer Bill of Rights (TABOR) revenue and spending limitations.

Trades and Exchanges

The state constitution states that this fund is to remain inviolate and intact. The Treasurer has authority to effect exchanges or sales whenever such exchanges or sales will not result in any ultimate loss of principal and to effect exchanges or sales that will result in a loss of principal whenever such loss can be offset by a corresponding gain within three years of such exchange or sale. No exchange or sale of securities may be transacted that will result in a net loss of principal unless the General Assembly has previously appropriated a sum to the Fund equivalent to the anticipated net loss of principal from such exchange or sale.

Liquidity

Given the permanent status of this Fund, liquidity is not an operational concern; however, sufficient liquidity will be maintained to ensure the overall quality and marketability of the portfolio. The liquidity must be sufficient to provide for the annual transfer to Education. Beginning in the 2010/11 Fiscal Year, any interest earned in the Fund shall remain in the Fund and become part of the principle of the Fund.

Maturity

Most of the investment income generated by the portfolio is currently reinvested. The portfolio uses an average life calculation. The average life of the portfolio is between four and six years. Decisions on maturity will depend on the current level of interest rates, the shape of the yield curve, the economic forecasts, and the impact on the average life of the portfolio.

Diversification

The average life requirements and specific standards per security type provide diversification of maturity, instrument type, and issuer. A summary of limitations by type follows:

Security	**Min/Max**
Treasury/Agency	20/100
Misc. Government Guaranteed	0/50
Mortgage	0/50
Domestic Corporate	0/20
Asset-Backed	0/30
Municipal	0/15
Repurchase Agreements	0/50
TPool	0/20
BAs and Bank Notes	0/20

Security Standards

Treasury/Agency: A minimum of 20% of the portfolio will be held in U.S. Treasury or Agency securities.

A maximum of 100% of the portfolio may be held in U.S. Treasuries, and a maximum of 75% may be held in Agency securities.

Miscellaneous Government Guaranteed: No more than 50% of the portfolio will be held in other direct obligations of the U.S. or obligations that are fully insured or guaranteed as to payment of principal and interest by the U.S. or its agencies or instrumentalities.

From time to time, the Treasury may find it advantageous to purchase bonds representing securitized pools of Small Business Association loans from the Colorado Housing & Finance Authority. The loans are fully guaranteed by the U.S. government. No more than 5% of the total portfolio may be invested in these securities.

Mortgage: Mortgage-backed pools and collateralized mortgage obligations (CMOs) may be purchased.

Mortgage pools must be issued by GNMA, FNMA, or FHLMC.

CMOs must be backed by GNMA, FNMA, or FHLMC pools.

In the case of agency-backed CMO issues whereby the broker/dealer is acting as official agent for Fannie Mae or Freddie Mac, there will be no maximum amount constraint per issue as long as Fannie Mae and Freddie Mac maintain their agency status.

In the case of Ginnie-Mae-backed CMO issues whereby the broker/dealer is acting as sponsor for Ginnie Mae, a direct obligation of the U.S. Government, there will be no maximum amount constraint.

The original issuance of any issue purchased must have been at least $75 million.

No more than 50% of the portfolio will be held in mortgage securities.

Domestic Corporate: The long-term debt of the issuer must be rated at least ‘A’ by a nationally recognized rating organization for securities with a maturity of less than five years. The long-term debt of the issuer must be rated at least ‘AA’ by a nationally recognized rating organization for securities with a maturity of five or more years.

No more than 5% of the portfolio will be held in the securities of any issuer. No more than 5% of any issue may be held.

No more than 20% of the portfolio will be held in Domestic Corporate Securities.

144A paper is not permitted.

Asset-Backed Securities: The issuer must be U.S. domiciled.

The issue must be rated in the highest rating category by one or more nationally recognized rating organizations.

No more than 5% of a single issue will be held. No more than 5% of the portfolio will be held in the securities of a single issuer.

No asset-backed securities with an insurance wrap may be purchased.

No asset-backed securities secured by subprime receivables may be purchased.

No more than 30% of the portfolio will be held in asset-backed Securities.

Taxable Municipal Securities: Taxable obligations of political and governmental subdivisions of the state of Colorado and of school districts within the state may be purchased.

The issue must be rated at least ‘AA’ by a nationally recognized security rating organization.

The amount of purchase of each issue will be determined on a case-by-case basis consistent with prudent care.

No more than 15% of the portfolio will be held in Taxable Municipal Securities.

Repurchase Agreements--Treasury & Agency Securities as Collateral: All trades will be executed delivery versus payment. The market value of the repurchase collateral must be at least 101% of the cash price. Collateral is limited to treasury bills, notes/bonds, agency discount notes and term notes/bonds.

Term trades will be limited to a maximum of three months. All term trades will be reviewed at least weekly to determine collateral adequacy.

Trades will be limited to dealers who are designated as a primary government securities dealer by the Federal Reserve Bank of New York. The state must have a Public Securities Association Master Repurchase Agreement properly signed and on file.

Repurchase agreements will be limited to $50 million per dealer.

Treasury Pool: Earnings on the Fund's investment in the pool will be determined and distributed monthly based on the Fund's monthly average balance in the pool as determined by the state accounting system records.

Under normal circumstances, no more than 20% of the portfolio will be held in the TPool. Exceptions may occur on a temporary basis when a major portfolio restructuring may be necessary.

Bankers' Acceptances & Bank Notes: The bank must be U.S. domiciled and a member of the FDIC with a net worth exceeding $250 million.

The short-term debt rating of the accepting bank must be rated prime one (A1/P1) and the long-term debt of the bank and/or the bank holding company must be rated no less than 'A' by a nationally recognized rating organization.

No more than 5% of the portfolio will be held in the acceptances and/or notes of a bank. Holdings in bankers' acceptances (BAs) and bank notes will be applied against the corporate security limits of the bank holding company.

No more than 20% of the portfolio will be held in bankers' acceptances and bank notes.

Securities Lending Agreement: A bonds-borrowed style securities lending agreement that is collateralized in excess of 100% according to collateral type may be executed for incremental income with a reputable and financially responsible primary dealer or a financially and operationally stable FDIC insured major regional or money center bank through the RFP process. The dealer or bank must have had a securities lending program in place for a minimum of three years and must have at least one public fund participant in the program.

Reporting

Annually the Treasurer is required to report the investment income to the Legislature.

Performance Evaluation

The yield evaluation benchmark for the Public School Permanent Fund is the 12-month average yield of the U.S. Treasury five-year Constant Maturity Index as published by the Federal Reserve and reviewed over a five-year time period.

The total return performance benchmark, prepared by Treasury's custodian, is a customized index comprised of treasury, agency, mortgage, and corporate bonds, as follows:

37% Merrill Lynch U.S. Treasury, 1-10 Years Index
34% Merrill Lynch Mortgages, 0-10 Years WAL Index
19% Merrill Lynch AAA U.S. Agencies, 1-10 Years Index
10% Merrill Lynch U.S. Corporates, A-AAA Rated, 1-10 Years Index